

**STATE BOARD OF ACCOUNTS  
302 West Washington Street  
Room E418  
INDIANAPOLIS, INDIANA 46204-2769**

AUDIT REPORT  
OF  
KNOX COMMUNITY SCHOOL CORPORATION  
STARKE COUNTY, INDIANA  
July 1, 2004 to June 30, 2006



**FILED**  
03/16/2007



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#### SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Sherry Sue Fort	07-01-04 to 06-30-07
Superintendent of Schools	Dr. Allen Bourff John Heath (Interim) Dr. Kimberly Knott	07-01-04 to 07-30-04 08-01-04 to 01-16-05 01-17-05 to 06-30-07
President of the School Board	Gary Dulin Mike Yankauskas	01-01-04 to 12-31-05 01-01-06 to 12-31-07



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE KNOX COMMUNITY SCHOOL  
CORPORATION, STARKE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Knox Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated January 24, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Schedules of Funding Progress is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt are presented for additional analysis and are not a required part of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

January 24, 2007



# STATE OF INDIANA

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Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE KNOX COMMUNITY SCHOOL  
CORPORATION, STARKE COUNTY, INDIANA

We have audited the financial statements of the Knox Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

January 24, 2007

KNOX COMMUNITY SCHOOL CORPORATION  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 4,573,232
Restricted assets:	
Cash and investments	<u>273,479</u>
Total assets	<u>\$ 4,846,711</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 273,479
Unrestricted	<u>4,573,232</u>
Total net assets	<u>\$ 4,846,711</u>

The accompanying notes are an integral part of the financial statements.



KNOX COMMUNITY SCHOOL CORPORATION  
STATEMENT OF CASH AND INVESTMENTS  
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 3,592,183
Restricted assets:	
Cash and investments	<u>445,543</u>
Total assets	<u>\$ 4,037,726</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 445,543
Unrestricted	<u>3,592,183</u>
Total net assets	<u>\$ 4,037,726</u>

The accompanying notes are an integral part of the financial statements.

KNOX COMMUNITY SCHOOL CORPORATION  
STATEMENT OF CASH ACTIVITIES  
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 6,243,455	\$ -	\$ 122,357	\$ (6,121,098)
Support services	8,664,595	408,539	428,451	(7,827,605)
Community services	245,824	-	-	(245,824)
Nonprogrammed charges	1,074,960	-	-	(1,074,960)
Debt service	5,604,882	-	-	(5,604,882)
Total governmental activities	<u>\$ 21,833,716</u>	<u>\$ 408,539</u>	<u>\$ 550,808</u>	<u>(20,874,369)</u>
General receipts:				
Property taxes				8,923,042
Other local sources				1,719,170
State aid				8,988,077
Grants and contributions not restricted				1,055,809
Bonds and loans				3,000,000
Sale of property, adjustments, and refunds				132,225
Investment earnings				<u>63,068</u>
Total general receipts				<u>23,881,391</u>
Change in cash and investments				3,007,022
Net assets - beginning				<u>1,839,689</u>
Net assets - ending				<u>\$ 4,846,711</u>

The accompanying notes are an integral part of the financial statements.

KNOX COMMUNITY SCHOOL CORPORATION  
STATEMENT OF CASH ACTIVITIES  
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 6,020,821	\$ -	\$ 69,062	\$ (5,951,759)
Support services	7,942,175	397,078	496,211	(7,048,886)
Community services	210,484	-	-	(210,484)
Nonprogrammed charges	1,052,437	-	-	(1,052,437)
Debt service	5,127,898	-	-	(5,127,898)
Total governmental activities	<u>\$ 20,353,815</u>	<u>\$ 397,078</u>	<u>\$ 565,273</u>	<u>(19,391,464)</u>
General receipts:				
				6,502,686
Property taxes				1,292,893
Other local sources				9,417,986
State aid				916,838
Grants and contributions not restricted				307,488
Sale of property, adjustments, and refunds				144,588
Investment earnings				<u>18,582,479</u>
Total general receipts				
				(808,985)
Change in cash and investments				
Net assets - beginning				<u>4,846,711</u>
Net assets - ending				<u>\$ 4,037,726</u>

The accompanying notes are an integral part of the financial statements.

KNOX COMMUNITY SCHOOL CORPORATION  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2005

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 4,367,575	\$ 949,247	\$ 3,218,077	\$ 1,483,116	\$ 79,562	\$ 747,744	\$ 10,845,321
Intermediate sources	276	-	-	-	-	268,218	268,494
State sources	9,096,567	-	-	-	-	121,128	9,217,695
Federal sources	-	-	-	-	-	1,377,003	1,377,003
Bonds and loans	3,000,000	-	-	-	-	-	3,000,000
Sale of property, adjustments and refunds	51,940	22,951	-	36,490	15,266	5,578	132,225
Intergovernmental transfers	11,581	-	-	-	-	168,442	180,023
Total receipts	<u>16,527,939</u>	<u>972,198</u>	<u>3,218,077</u>	<u>1,519,606</u>	<u>94,828</u>	<u>2,688,113</u>	<u>25,020,761</u>
Disbursements:							
Current:							
Instruction	5,266,831	-	-	-	-	976,624	6,243,455
Support services	5,290,553	654,268	-	1,095,582	178,324	1,445,868	8,664,595
Community services	216,162	-	-	-	-	29,662	245,824
Nonprogrammed charges	990,449	-	-	-	-	264,534	1,254,983
Debt services	<u>3,502,222</u>	<u>-</u>	<u>2,102,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,604,882</u>
Total disbursements	<u>15,266,217</u>	<u>654,268</u>	<u>2,102,660</u>	<u>1,095,582</u>	<u>178,324</u>	<u>2,716,688</u>	<u>22,013,739</u>
Excess (deficiency) of total receipts over (under) total disbursements	1,261,722	317,930	1,115,417	424,024	(83,496)	(28,575)	3,007,022
Cash and investments - beginning	<u>1,929,443</u>	<u>(147,922)</u>	<u>(841,938)</u>	<u>201,891</u>	<u>47,684</u>	<u>650,531</u>	<u>1,839,689</u>
Cash and investments - ending	<u>\$ 3,191,165</u>	<u>\$ 170,008</u>	<u>\$ 273,479</u>	<u>\$ 625,915</u>	<u>\$ (35,812)</u>	<u>\$ 621,956</u>	<u>\$ 4,846,711</u>

The accompanying notes are an integral part of the financial statements.

KNOX COMMUNITY SCHOOL CORPORATION  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2006

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 2,917,540	\$ 743,004	\$ 2,363,552	\$ 1,322,234	\$ 180,740	\$ 724,230	\$ 8,251,300
Intermediate sources	551	-	-	-	-	85,393	85,944
State sources	9,472,985	-	-	-	-	106,431	9,579,416
Federal sources	-	-	-	-	-	1,320,682	1,320,682
Sale of property, adjustments and refunds	144,287	43,410	-	2,550	500	116,741	307,488
Intergovernmental transfers	288,121	18,189	63,590	25,347	-	422,428	817,675
Total receipts	<u>12,823,484</u>	<u>804,603</u>	<u>2,427,142</u>	<u>1,350,131</u>	<u>181,240</u>	<u>2,775,905</u>	<u>20,362,505</u>
Disbursements:							
Current:							
Instruction	5,021,531	-	-	-	-	999,290	6,020,821
Support services	4,910,248	626,414	-	1,066,396	65,083	1,274,034	7,942,175
Community services	204,450	-	-	-	-	6,034	210,484
Nonprogrammed charges	1,159,088	36,378	127,180	50,694	-	496,772	1,870,112
Debt services	3,000,000	-	2,127,898	-	-	-	5,127,898
Total disbursements	<u>14,295,317</u>	<u>662,792</u>	<u>2,255,078</u>	<u>1,117,090</u>	<u>65,083</u>	<u>2,776,130</u>	<u>21,171,490</u>
Excess (deficiency) of total receipts over (under) total disbursements	(1,471,833)	141,811	172,064	233,041	116,157	(225)	(808,985)
Cash and investments - beginning	<u>3,191,165</u>	<u>170,008</u>	<u>273,479</u>	<u>625,915</u>	<u>(35,812)</u>	<u>621,956</u>	<u>4,846,711</u>
Cash and investments - ending	<u>\$ 1,719,332</u>	<u>\$ 311,819</u>	<u>\$ 445,543</u>	<u>\$ 858,956</u>	<u>\$ 80,345</u>	<u>\$ 621,731</u>	<u>\$ 4,037,726</u>

The accompanying notes are an integral part of the financial statements.

KNOX COMMUNITY SCHOOL CORPORATION  
STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
For The Year Ended June 30, 2005

	Private-Purpose Trust Fund
Additions:	
Local sources	\$ 6,102
Sale of property, adjustments and refunds	500
	<hr/>
Total additions	6,602
	<hr/>
Deductions:	
Instruction	1,560
Nonprogrammed charges	3,100
	<hr/>
Total deductions	4,660
	<hr/>
Excess of total additions over total deductions	1,942
Cash and investments - beginning	37,321
	<hr/>
Cash and investments - ending	\$ 39,263
	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

KNOX COMMUNITY SCHOOL CORPORATION  
STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
For The Year Ended June 30, 2006

	Pension Trust Fund	Private-Purpose Trust Fund
Additions:		
Local sources	\$ -	\$ 1,910
Bonds and loans	3,200,000	-
Total additions	3,200,000	1,910
Deductions:		
Instruction	-	250
Support services	-	19
Nonprogrammed charges	-	1,400
Total deductions	-	1,669
Excess of total additions over total deductions	3,200,000	241
Cash and investments - beginning	-	39,263
Cash and investments - ending	\$ 3,200,000	\$ 39,504

The accompanying notes are an integral part of the financial statements.

KNOX COMMUNITY SCHOOL CORPORATION  
STATEMENT OF CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
June 30, 2005

<u>Assets</u>	<u>Private-Purpose Trust Fund</u>	<u>Agency Funds</u>
Cash and investments	\$ 39,263	\$ 115,155
	<u>                    </u>	<u>                    </u>
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 39,263	
	<u>                    </u>	

The accompanying notes are an integral part of the financial statements.



KNOX COMMUNITY SCHOOL CORPORATION  
STATEMENT OF CASH AND INVESTMENTS  
FIDUCIARY FUNDS  
June 30, 2006

<u>Assets</u>	<u>Pension Trust Fund</u>	<u>Private-Purpose Trust Fund</u>	<u>Agency Funds</u>
Cash and investments	\$ 3,200,000	\$ 39,504	\$ 90,370
<u>Net Assets</u>			
Held in trust for employee benefits and other purposes	\$ 3,200,000	\$ 39,504	

The accompanying notes are an integral part of the financial statements.

KNOX COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The School Corporation's financial reporting entity is composed of the following:

Primary Government: Knox Community School Corporation

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Joint Venture

The School Corporation is a participant with nine other school corporations in a joint venture to operate North Central Area Vocational Cooperative (NCAVC) which was created to provide planning, operating programs, and service for vocational education. The School Corporation is obligated by contract to remit its proportionate share annually to supplement the NCAVC budget. The NCAVC's continued existence depends on continued funding by the member school corporations. Complete financial statements for the NCAVC can be obtained from the NCAVC administrative office located at the Culver Community School Corporation, P.O. Box 231, 222 North Ohio Street, Culver, IN, 46511.

The School Corporation is a participant with nine other school corporations in a joint venture to operate Joint Educational Service in Special Education (JESSE) which was created to operate a comprehensive program for children with disabilities. The School Corporation is obligated by contract to remit its proportional share annually to supplement the JESSE budget. JESSE's continued existence depends on continued funding by the member school corporations. Complete financial statements for JESSE can be obtained from the JESSE administrative office located at 322 North Michigan Street, Plymouth, IN, 46563.

The School Corporation is a participant with forty-one other school corporations in a joint venture to operate the Northern Indiana Education Services Center (NIESC) which was created to assist member school corporations in providing educational programs and services. The School Corporation is obligated by contract to remit \$10,000 annually to supplement the NIESC budget. Complete financial statements for NIESC can be obtained from its administrative office located at 56535 Magnetic Drive, Mishawaka, IN, 46545.

Related Organizations

The School Corporation's officials are also responsible for appointing the members of the boards of other organizations, but the School Corporation's accountability for these organizations does not extend beyond making the appointments. The School Corporation appoints the board members of the City of Knox Park Board and the Henry F. Schricker Library.

KNOX COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investment and the Statement of Cash Activities displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. However, there are no business-type activities to report at this time.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The transportation operating fund accounts for financial resources for the transportation of school children to and from school.

The debt service fund accounts for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, judgments against the corporation, equipment or capital construction, and interest on emergency and temporary loans.

The capital projects fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

The school bus replacement fund is used to account for receipts and disbursements concerning the acquisition and disposal of school buses.

Additionally, the School Corporation reports the following fund types:

The pension trust funds account for the activities of the Pension Retirement/Severance Bond Fund, which accumulate resources for pension benefit payments.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the students in the form of scholarships.

Agency funds account for assets held by the School Corporation as an agent for state and federal taxing authorities, various employee benefits providers, and service as control accounts for certain cash transactions during the time they are a liability to the School Corporation.

KNOX COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

3. Compensated Absences

a. Sick Leave

Certified employees earn sick leave at the rate of 7 days per year. Noncertified employees earn sick leave at the rate of 6 days per year. Unused sick leave may be accumulated to a maximum of 175 days for certified employees and 70 days for noncertified employees. Accumulated sick leave is paid to employees through cash payments upon retirement.

KNOX COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 12 days to 15 days per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of 18 to 24 days. Accumulated vacation leave is paid to employees through cash payments upon termination.

c. Personal Leave

Certified employees earn personal leave at the rate of 3 days per year. Noncertified employees earn personal leave at the rate of 2 to 3 days per year. Personal leave is converted to sick time if not used by the end of the year.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

It is the School Corporation’s policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, and (2) operating grants and contributions. General receipts include all taxes.

KNOX COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Cash Activities, some amounts reported as interfund activity have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Cash Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Cash Activities.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

KNOX COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

B. Cash and Investment Balance Deficits

At June 30, 2005 and 2006, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines as referenced in state statute:

Fund	2005	2006
School Bus Replacement	\$ (35,812)	\$ -
21st Century Scholars	(2,724)	-
Y.E.S. 04-05 Program	(79,276)	-
Gear-Up 04-05	(16,883)	-
ACE 05-06 SY	-	(25,928)

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

III. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2005 and 2006, were as follows:

Transfer To	Transfer From	2005	2006
General Fund	Other Governmental	\$ 11,581	\$ 288,121
Debt Service	Other Governmental	-	63,590
Capital Projects	Other Governmental	-	25,347
Transportation Operating	Other Governmental	-	18,189
Other Governmental	General Fund	-	197,347
Other Governmental	Debt Service	-	127,180
Other Governmental	Capital Projects	-	50,694
Other Governmental	Transportation Operating	-	36,378
Other Governmental	Other Governmental	168,442	10,829
Totals		<u>\$ 180,023</u>	<u>\$ 817,675</u>

KNOX COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The School Corporation typically uses transfers for cash flow purposes according to various statutes.

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Holding Corporation

The School Corporation has entered into a capital lease with Knox Community School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the 05-06 school year totaled \$1,974,455.

C. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment medical, vision and dental benefits, as authorized by Indiana Code 5-10-8, to all employees who retire from the School Corporation on or after attaining age 50 with at least 10 years of service. Currently, 15 retirees meet these eligibility requirements. The School Corporation and retirees provide 79% and 21%, respectively, of these postemployment benefits. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$76,944 were recognized for postemployment benefits

D. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plan

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the School



KNOX COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The School Corporation's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the School Corporation and the Utilities is not available.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 92,647
Interest on net pension obligation	(9,362)
Adjustment to annual required contribution	<u>10,669</u>
Annual pension cost	93,954
Contributions made	<u>111,547</u>
Decrease in net pension obligation	(17,593)
Net pension obligation, beginning of year	<u>(129,137)</u>
Net pension obligation, end of year	<u><u>\$ (146,730)</u></u>

KNOX COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	<u>PERF</u>
Contribution rates:	
School Corporation	8.5%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

<u>Actuarial Assumptions</u>	<u>PERF</u>
Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-03	\$ 129,898	81%	\$ (99,782)
	06-30-04	84,377	135%	(129,137)
	06-30-05	93,954	132%	(146,730)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan.

KNOX COMMUNITY SCHOOL CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund  
150 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

The School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$205,600, \$187,491, and \$165,975, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

KNOX COMMUNITY SCHOOL CORPORATION  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over (Unfunded) AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Unfunded) Assets as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 1,833,143	\$ 1,810,752	\$ 22,391	101%	\$ 1,714,623	1%
07-01-04	1,875,987	1,901,402	(25,415)	99%	1,814,136	(1%)
07-01-05	1,964,742	2,027,049	(62,307)	97%	1,787,822	(3%)

KNOX COMMUNITY SCHOOL CORPORATION  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS  
June 30, 2006

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement costs. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 2,072,200
Building	35,238,582
Improvements other than buildings	2,690,823
Machinery and equipment	<u>3,756,300</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 43,757,905</u>

KNOX COMMUNITY SCHOOL CORPORATION  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF LONG-TERM DEBT  
June 30, 2006

The School Corporation has entered into the following long-term debt:

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Knox Middle School	\$ 17,912,706	\$ 1,500,000
Energy Savings	1,520,199	273,147
Notes and loans payable	778,750	44,500
Bonds payable:		
General obligations bonds:		
Pension bonds, series 11	3,200,000	70,000
Total governmental activities long-term debt	<u>\$ 23,411,655</u>	<u>\$ 1,887,647</u>

## KNOX COMMUNITY SCHOOL CORPORATION AUDIT RESULTS AND COMMENTS

### TRANSFERS BETWEEN FUNDS

Interfund transfers as reported on the Form 9 for Knox Community School Corporation did not balance. Interfund transfer receipts did not agree to interfund transfer disbursements for either school year.

All transfers from one fund to another fund should be detailed under Receipt Account 9000. The disbursements posted to this account (43100) should agree with receipts posted to Account 9000. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 5)

### PAYROLL DISBURSEMENTS

The School Corporation was paying a high school teacher's aide \$17.19/hour. The hourly wage was not within the approved salary range for this classification.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 13)

### OVERDRAWN CASH BALANCES

The cash balances of the School Bus Replacement Fund, the 21<sup>st</sup> Century Scholars Fund, the Y.E.S. 04-05 Program Fund, and the Gear-Up 04-05 Fund were overdrawn at June 30, 2005. The ACE 05-06 SY Fund was overdrawn at June 30, 2006.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

### FORM 9 REPORTING

The fiscal financial reports (Form 9) provided by the Indiana Department of Education's Division of School Finance did not always agree to the fund reports contained on the School Corporation ledgers. A similar comment was noted in prior Report B24244.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings and filing requirements concerning reports and other procedural matters of federal state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

KNOX COMMUNITY SCHOOL CORPORATION  
AUDIT RESULTS AND COMMENTS  
(Continued)

COLLECTION OF AMOUNTS DUE (Applies to Knox Community Elementary School)

The outstanding textbook rental owed to the elementary school was \$8,490 at the end of the fiscal year June 30, 2006, which represents approximately 20% of the annual billing for textbook rental. Past due amounts were not always pursued for collections.

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 7)

INTERNAL CONTROLS (Applies to Knox Community Elementary School)

The internal controls over billing and recordkeeping for the textbook rental fund were insufficient. The Extra-Curricular Treasurer could not provide a listing of the student account balances for the 2004-05 fiscal year end.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 7)



SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



# STATE OF INDIANA

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE KNOX COMMUNITY SCHOOL  
CORPORATION, STARKE COUNTY, INDIANA

### Compliance

We have audited the compliance of the Knox Community School Corporation (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

January 24, 2007

KNOX COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 138,125	\$ 146,048
National School Lunch Program	10.555		286,533	321,287
Total for Child Nutrition Cluster			424,658	467,335
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010			
		FY 04-7525	133,457	-
		FY 05-7525	356,560	105,431
		FY 06-7525	-	266,114
Total for program			490,017	371,545
Vocational Education - Basic Grants to States	84.048			
		FY 03/04	2,255	-
		FY 04/05	7,714	-
		FY 05/06	-	7,714
Total for program			9,969	7,714
Safe and Drug Free Schools and Communities - State Grants	84.186			
		03-011	12,200	-
		04-028	22,034	11,552
		05-013	-	4,049
Total for program			34,234	15,601
State Grants for Innovative Programs	84.298			
		03-080	7,208	-
		04-068	17,556	8,131
		05-106	-	3,512
Total for program			24,764	11,643
Education Technology State Grants	84.318			
		03/04	984	10,806
		04/05	16,669	-
		05/06	-	7,430
Total for program			17,653	18,236
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334			
		03/04	47,687	-
		04/05	167,184	41,677
Total for program			214,871	41,677
Reading First State Grants	84.357			
		03/04	110,690	-
		04/05	182,625	76,747
		05/06	-	287,092
Total for program			293,315	363,839
Rural Education	84.358			
		02-004	3,235	-
Improving Teacher Quality State Grants	84.367			
		03/04	156,303	-
		04/05	42,913	98,856
		05/06	-	35,072
Total for program			199,216	133,928
Total for federal grantor agency			1,287,274	964,183
Total federal awards expended			\$ 1,711,932	\$ 1,431,518

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

KNOX COMMUNITY SCHOOL CORPORATION  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Knox Community School Corporation (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of school corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2005 and 2006. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	2005	2006
School Breakfast Program	10.553	\$ 9,215	\$ 8,997
National School Lunch Program	10.555	21,185	20,874

KNOX COMMUNITY SCHOOL CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted?	no
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Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	no
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Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	Child Nutrition Cluster
84.357	Reading First State Grants
84.367	Improving Teacher Quality State Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	no
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Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

# KNOX COMMUNITY SCHOOL CORPORATION

**Kimberly A. Knott, Ed.D.**  
Superintendent




#2 REDSKIN TRAIL  
KNOX, INDIANA 46534


(574) 772-1601  
FAX: (574) 772-1608  
E-MAIL: kknott@knox.k12.in.us

January 2, 2007

## Summary Schedule of Audit Findings

Finding Number	2004-2
Original SBA Audit Report Number	B24244
Fiscal Year	July 2002 – June 2004
Auditee Contact Person	Sherry Fort
Title of Contact Person	Bus Manager/Corp Treas
Phone Number	574-772-1604
Status of Finding	The Knox Community School Board of Trustee approved a revised fixed asset policy on July 17, 2006. We are keeping track of fixed assets through Komputrol Fixed Asset program. When paying PO's this gives use a report as to when a purchase of over \$5,000.00 has been made to add to fixed assets. The building levels at the end of each school year complete an inventory and report any items deleted. With this procedure in place our fixed assets should be in compliance.

  
Sherry Sue Fort, Bus Manager/Corp Treas

  
Kimberly A. Knott, Ed.D.

KNOX COMMUNITY SCHOOL CORPORATION  
CORRECTIVE ACTION PLAN

No matters are reportable.



KNOX COMMUNITY SCHOOL CORPORATION  
EXIT CONFERENCE

The contents of this report were discussed on January 24, 2007, with Sherry Sue Fort, Treasurer; Dr. Kimberly Knott, Superintendent of Schools; and Mike Yankauskas, President of the School Board. The official response has been made a part of this report and may be found on page 40.

# KNOX COMMUNITY SCHOOL CORPORATION



#2 REDSKIN TRAIL  
KNOX, INDIANA 46534

**Kimberly A. Knott, Ed.D.**  
*Superintendent*

(574) 772-1601  
FAX: (574) 772-1608  
E-MAIL: kknott@knox.k12.in.us

January 30, 2007

State Board of Accounts  
302 West Washington Street  
Room E148  
Indianapolis, IN 46204-2765

To Whom This May Concern:

Please accept this letter as a formal response to the exit interview conducted with Knox Community School Corporation and the State Board of Accounts on January 24, 2007.

In this exit interview, a citation for internal controls was issued to Knox Community Elementary School. This citation was given because the extra-curricular treasurer could not provide a listing of the student account balances for the 2004-2005 fiscal year. In actuality, the records were available; the software program could not be accessed to print.

I have since attached the information cited. Knox Community School Corporation would ask that said citation be removed.

Sincerely,

Kimberly A. Knott, Ed.D.

Pc/ Business Manager  
Elementary Treasurer  
Elementary Principal  
Board President